



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** March 3, 2009

**TO:** Mayor and Councilmembers

**FROM:** Environmental Services Division, Finance Department

**SUBJECT:** Proposed New Business Sector Trash And Recycling Rate Structure Effective July 1, 2009

### RECOMMENDATION:

That Council approve the proposed business trash and recycling structure and direct staff to finalize the rates and initiate outreach and noticing requirements.

### DISCUSSION:

In March 2008, City Council approved the Solid Waste Action Plan (Action Plan), designed to focus and better coordinate staff efforts to implement the projects of the 2005 Solid Waste Strategic Plan. The Action Plan spells out an approach to maximizing diversion from landfill disposal for fiscal years 2008 through 2011. The Action Plan's top two priorities are Business Sector Recycling and the implementation of a Foodscrap Recovery and Composting Program in the Business Sector.

As part of the Business Sector Recycling effort, Environmental Services Division staff hired Skumatz Economics Research Associates (SERA) to perform a rate study for the business sector. The Rate Study Project Team (Project Team) was comprised of senior staff from Allied Waste Industries (Allied) and MarBorg Industries (MarBorg), the City's franchised haulers, SERA and Environmental Services staff.

### Goals of the Rate Study

The three primary goals of the rate study were to: (1) establish new rates for the Foodscrap Recovery and Composting Program in the business sector; (2) provide greater financial incentives for businesses to divert more material from landfill disposal; and (3) make business trash rates / utility bills easier to understand, enabling customers to more easily discern the financial incentives to divert material from the trash. The rate study also corrected several anomalies in the existing rate structure that can create disincentives for businesses to recycle more.

## Rate Study Objectives and Policy Assumptions

The Project Team worked to develop a rate model that would be reliable and capable of predicting the potential financial impacts of various diversion targets for the business sector. The rate model was also designed to generate a more uniform and logical rate structure, deliver immediate rewards or penalties for customers based on their existing efforts to divert, and to provide **all** customers with an opportunity to reduce their monthly bill by increasing their diversion. The Project Team also required a model that could calculate the potential impacts on hauler revenues and costs, helping to ensure revenue neutrality for the haulers.

The franchised haulers and staff reviewed many different inputs to the model, pursuing the following major policy goals to develop a new business rate structure:

- Increasing charges to business customers currently below 50% diversion;
- Decreasing charges to business customers currently above 50% diversion;
- Providing an opportunity for all customers to lower their bills through increased diversion;
- Pricing recycling, greenwaste, and foodscraps services at 20% the price of trash;
- Preserving the free 96 gallons of free recycling and greenwaste services for those customers with carts and/or cans only;
- Discontinuing free recycling and greenwaste services for customers with trash dumpsters;
- Encouraging reduced collection frequencies through rate penalties; and
- Generating additional revenues to ensure rate stability over several years.

## Rate Study Results

The model includes a customer class analysis that demonstrates the impact of the new rates upon customers at varying levels of material collected per week and diversion. Although it was not possible to achieve all of the above policy goals for every customer class at every diversion level, the proposed rate structure maximizes the desired policy goals. Below is an example of the impacts to a business customer that has eight cubic yards of collection services per week, at varying levels of diversion:

<b><u>8 Yard Business Customer</u></b>	<b><u>Diversion</u></b>	<b><u>Current Bill</u></b>	<b><u>New Bill</u></b>	<b><u>% Change</u></b>
Trash Dumpster Only	0%	\$474.77	\$599.75	26.3%
Trash Dumpster / Recycling Dumpster	33%	\$446.12	\$478.74	7.3%
Trash Dumpster / Recycling Dumpster	50%	\$389.18	\$342.71	-11.9%
Trash Dumpster / Recycling Dumpster	66%	\$332.24	\$233.12	-29.8%

The proposed new business rate structure and impacts to customer classes were presented to the Solid Waste Committee (Committee) on February 12, 2009. The Committee recommended forwarding the proposed business rate structure to City Council for approval.

### **Revenue Neutrality & Rate Stability Funds**

From the outset of the Rate Study, the Project Team acknowledged that an econometric model would be capable of producing a new rate structure, and produce positive results in the business sector, yet would be only as effective as the assumptions used in the model. The Project Team realized that it would be not possible to predict the resultant diversion in the business sector, and revenues generated, with 100% accuracy. To this end, the existing franchise agreements with Allied and MarBorg state that when and if the City proposes significant changes to the solid waste rate structure - to achieve specific environmental or policy objectives - the City is required to "keep the haulers whole." More precisely, the City is required to ensure that the revenues generated under a new rate structure are not materially different from existing revenues and, if so, the City is required to correct any significant variance, whether a shortfall or an excess of revenues.

With this contractual obligation in mind, the Project Team designed the proposed new rates for trash and recycling services so that additional funds can be generated and used to keep the haulers whole. While these funds will allow the City to adjust payments to the haulers as needed, they will also reduce the degree to which rates may need to be modified from year to year. In other words, while the goal and intended result for these funds is to keep the haulers whole, these funds will also provide stability to the rate structure from year to year.

### **Next Steps**

If Council approves the proposed new business trash and recycling rate structure, staff will begin implementing the following targeted outreach efforts to businesses:

- Utility Bill Inserts & Messages (Prop 218 notice)
- Direct Mailing to All City Businesses
- Presentations to Large Business Groups  
(e.g., Downtown Organization, Chamber of Commerce)
- Several Stakeholder Meetings
- Technical Assistance to Potentially Affected Businesses  
(to avoid pending price increases)

**BUDGET/FINANCIAL INFORMATION:**

Per the franchise agreements with both Allied and MarBorg, the City is required to maintain revenue neutrality when proposing fundamental changes to the structure of the rates for collecting municipal solid waste in the City. The proposed new business rate structure has been designed to be revenue neutral and pose no material financial impacts to the City or the franchised haulers.

**SUSTAINABILITY IMPACTS:**

Recycling municipal solid waste and the City's related efforts to divert material from landfill disposal have considerable beneficial impacts to the environment. The proposed new business rates contain increased financial incentives for business customers to divert recyclable, compostable and/or reusable materials from the trash. The US EPA has acknowledged and developed metrics that provide clear evidence of reduced greenhouse gas emissions through composting and recycling, which result in the creation of products using recycled feedstocks versus using virgin, natural resources. All of the activities of the Action Plan contribute to the City's goal of becoming a more sustainable community.

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**SUBMITTED BY:** Robert D. Peirson, Finance Director

**APPROVED BY:** City Administrator's Office